# Media and Entertainment

## Watching for potential M&A

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This report does not constitute a rating action.

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### What's changed?

**Streaming reaches profitability.** Several legacy media companies have finally attained profitability in streaming.

**Secular advertising trends.** Legacy media platforms face accelerating challenges. Advertising on U.S. linear TV continues to decline.

**Content remains king.** The streamers reduced their programming spend after the 2023 Hollywood strikes.

### What are the key assumptions for 2025?

**Streaming profitability should grow,** putting legacy media companies on stronger footing.

**Global advertising to continue growth,** despite a year with no Olympics and fewer political ads.

**Content remains king and spending will resume in 2025** although at a more modest pace than in the previous 3-4 years. Fewer projects may hurt smaller independent studios and companies supporting the studio ecosystem.

### What are the key risks around the baseline?

**Accelerating secular trends across the entire media ecosystem.** Worsening declines in linear TV and shifts in advertising away from legacy media could weaken media issuers' credit metrics.

**Failure to scale streaming.** Not all media companies will build scale with their streaming services. There will likely be a maximum number of streaming services the world needs.

**Macroeconomic weakness/geopolitical shocks/a global trade war** could hurt consumer discretionary spending, which will affect streaming subscription growth and advertising.

# Ratings Trends: Media and Entertainment

Chart 1

### Ratings distribution by region

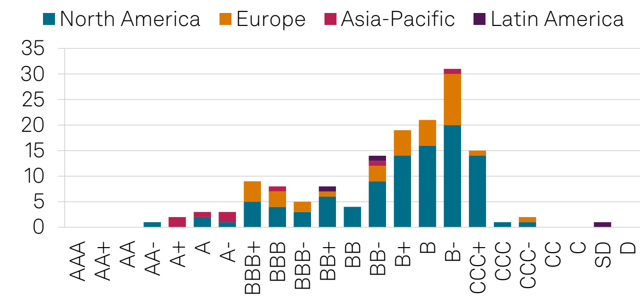



Chart 2

### Ratings distribution by subsector

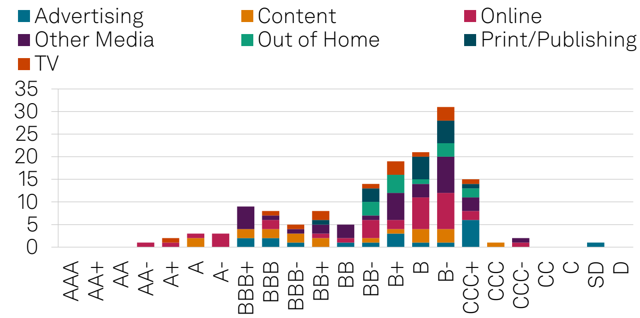



Chart 3

### Ratings outlooks by region

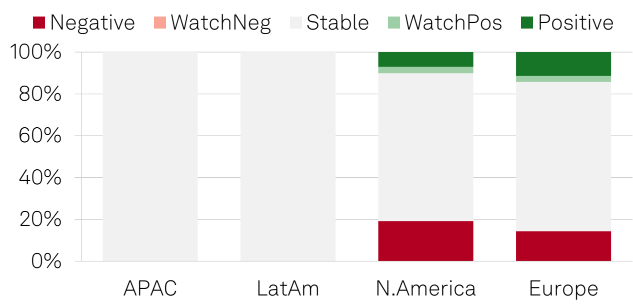



Chart 4

### Ratings outlooks by subsector

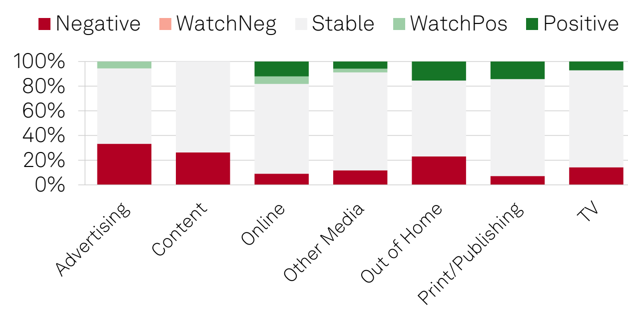



Chart 5

### Ratings outlook net bias by region

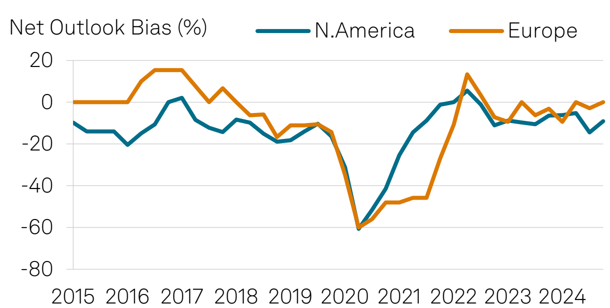



Chart 6

### Ratings net outlook bias by subsector

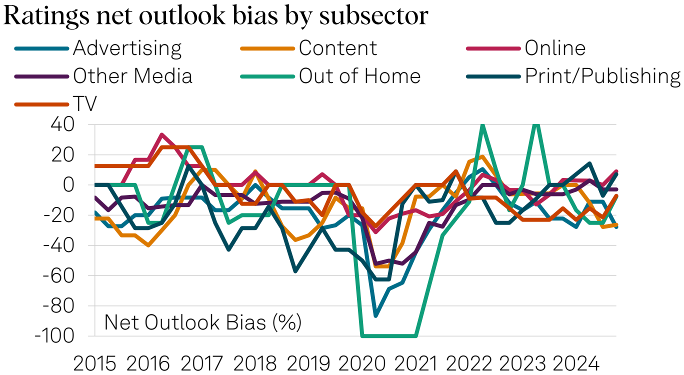



Chart 7

### Ratings outlooks

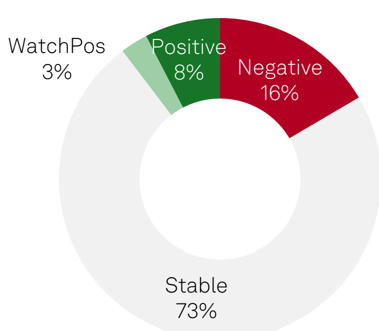
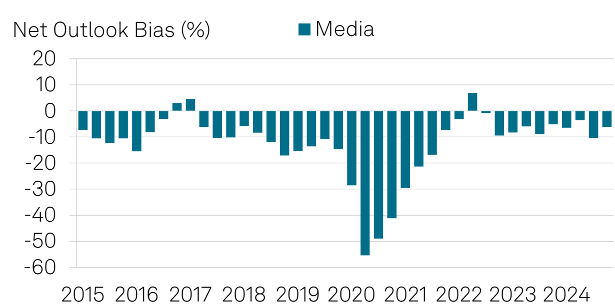



Chart 8

### Ratings net outlook bias




Source: S&P Global Ratings. Ratings data measured at quarter-end.

# Industry Outlook: Media and Entertainment

## Ratings trends and outlook

Secular pressures and the ongoing transition to digital distribution continue to hurt many legacy media sectors and companies, but our ratings outlook on the sector is stable. After two years of negative ratings actions, restructurings, and defaults, and of struggling to address issues in content creation, distribution, and advertising, the industry may have turned the corner.

**Content creation has scaled back.** Content—including film, episodic TV, music, video games, sports leagues, concerts, books, newspapers, magazines, and even consumer generated content—has never been in such high demand around the world. Over the last few years, though, legacy media companies were making too much of it. The 2023 Hollywood strikes gave them the opportunity to reevaluate their content budgets and to scale back, delay, or eliminate projects that were unlikely to be profitable. Content creation will never be a stable, predictable business but it may be moving toward being a more rationale one.

**Distribution achieves profitability.** Digital platforms democratize content by cutting distribution costs, but also limits the price distributors can charge consumers, which has hurt legacy media companies who depend on distribution fees to pay for creating that content. But now, after five years of experimentation and missteps, a number of media companies have crossed the breakeven profitability line for their streaming services and are now faced with the next challenge: to build subscriber and advertising scale and improve profitability, to overcome the declining profitability at linear media.

**Global advertising continues to bifurcate,** with digitally focused media platform (such as search, streaming, social media, digital commerce, retail media networks, and connected TVs) growing advertising revenue at a high-single-digit percentage rate in 2025. Advertiser spending on legacy media (TV, radio, and print), on the other hand, has declined at a low-single-digit percentage rate, though markets outside of the English-language universe are seeing more moderate secular trends. We expect these trends to continue beyond 2025.

**Secular challenges remain.** There remain subsectors within media that face an uncertain future. Five years of secular pressures, which included two years of a global pandemic, has left some segments of the media sector a shell of its former self. Consumption has become so fragmented that media's cultural impact is weakened. And the quality difference between certain professionally produced and user-generated content is shrinking. Artificial intelligence (AI) is accelerating this.

## Credit metrics and financial policy

**Credit metrics should improve in 2025 as streaming profitability grows.** This includes the global diversified media companies that, since 2019, have heavily invested in their new streaming services, which has weakened credit metrics. As many of these companies are now moving from cash-flow-breakeven to generating substantial profits, we expect streaming EBITDA to grow faster than legacy linear TV EBITDA declines. We expect companies to apply excess free cash flow to debt reduction and lower leverage further. Still, many have credit metrics exceeding our downgrade thresholds. How we address our ratings on these companies, by maintaining or lowering ratings, will depend on their ability and pace to return to credit metrics appropriate for the ratings.

## Key risks or opportunities around the baseline

**1. The potential for sustainable streaming profitability margins.**

Disney recently provided guidance for 10% operating income margins by 2026 and double-digit margins longer-term, and Netflix is approaching sustainable 30% margins. This level may be out of reach for legacy media companies with smaller global scale and greater dependence on high-priced sports programming.

**2. Media consolidation.**

With the change in U.S. administration and expectations for a more lenient regulatory environment, mergers and acquisitions (M&A) look more likely. However, we believe continued regulatory bias against tech companies, a lack of capital for legacy media companies, sizable differences in perceived valuation, and cultural issues will limit significant M&A in 2025.

**3. AI presents both opportunities and risks.**

Companies have already identified, and in some cases already implemented, ways in which AI could unlock material workflow efficiencies. How AI can be used to create content is still being determined and may be fraught with legal and regulatory risk.

**Significant M&A is challenging and needed.** We saw limited M&A activity in 2024 as companies focused primarily on balance sheet repair, though a few notable transactions were announced: the proposed mergers of Skydance and Paramount Global, and of Omnicom and Interpublic Group (IPG); the sale of All3Media by its partners, Liberty Global and Warner Bros. Discovery (WBD), to sponsor RedBird. In Brazil, Globo Comunicação e Participações S.A. acquired a controlling stake in Eletromidia S.A., the country's largest out-of-home media company. And Comcast announced its intent to spin off much of its domestic cable networks into a separate company.

Significant M&A among U.S. legacy media companies will be difficult to pull off in 2025 for several reasons. First, global regulators have sought to block most transactions involving the global media and technology companies, and we don't expect this to change with the change in U.S. presidential administration in the U.S. Second, as one would expect from a people-oriented industry, cultural compatibility remains a key consideration. Third, we believe a significant valuation gap exists between what potential acquirers are willing to pay and what potential targets think they're worth. Sellers point to continued cash flows and see long-term value, while buyers are more skeptical about the long-term viability of the sector and ascribe no terminal value. And finally, balance sheets remain stretched among both potential acquirers and targets, limiting debt-financed deals and making targets expensive.

Prospects for industry consolidation in Europe, the Middle East, and Africa (EMEA), especially in linear TV broadcasting, remain uncertain. Obtaining approvals from regulatory and competition authorities could be challenging, given that so far they have ruled against cross-border consolidation in France. Also, synergies in content acquisition and cross-country operating costs would likely be limited, reducing the attractiveness of cross-border transactions.

**Adoption of AI by legacy media companies will be gradual** as the technology and its regulations and legal boundaries evolve. Despite the global frenzy over AI last year, it has yet to materially shift legacy media companies' business strategies or financial and credit metrics, though we note that ad tech firms including Alphabet, Meta, and Tencent have dramatically increased capital spending on AI infrastructure. Over the near term, we expect media companies to use AI to reduce the time and costs of creating content. Film and TV studios are likely to use it for pre-production preparation and post-production finishing. Global ad agencies have already adopted it for creative campaigns. Over the long term, we believe technological disruption, including the adoption of generative AI, will likely enhance ad agencies' service offerings and market positions. They already own some technology and experience in this area and will continue to invest. This positions them well to advise and educate clients on AI's application and related regulatory, legal, and compliance considerations.

# Industry Outlook: Content

## Ratings trends and outlook

Our rating outlook for companies focused on creating and owning film and TV content is generally neutral. The resolution of the 2023 Hollywood strikes cleared the way for a resumption of content creation, and while production volumes improved in 2024, the content spending recovery was flattish to 2023—a year in which major studio production came grinding to a halt. Looking ahead, growth in content spending in 2025 will be at a slower pace than the levels that characterized the 'Peak TV' era. Nonetheless, we maintain that content remains king; companies with robust franchises and intellectual property (IP) are poised to thrive amidst a strategic flight to quality.

Content creators also include music publishers, video game developers, and sports leagues, and our rating outlooks for these sectors is positive. In the music industry, strong tailwinds are propelling growth, including a rising number of subscribers, price increases by streaming services like Spotify and Apple Music, and improved monetization from licensing with social media and gaming platforms, superfan-oriented business models, and merchandising. The integration of music into social media platforms such as Meta and TikTok has opened new revenue streams and enhanced visibility for artists and labels. In our view, AI-generated content poses limited risks for major record labels at this stage. We believe credit quality of Universal Music Group N.V. and Warner Music Group Corp. will benefit from these trends and see growing rating headroom. Meanwhile, premium video-game publishers with established IP, dedicated fan bases, and known brand names are benefiting from sustained user engagement and demand, despite declines in the mobile gaming segment. Meanwhile, sports properties remain in demand and companies like TKO Group Holdings Inc., which owns UFC and WWE, are capitalizing on it. WWE's live weekly flagship program, WWE RAW, being set to air on Netflix highlights a significant shift that could pave the way for future growth in live-stream sports. This move is likely to drive up the value of sports rights in future media rights negotiations, benefiting sports operators like TKO.

In EMEA, TV content produced by independent and vertically integrated studios is returning to more normalized operations. Delivery schedules are yet to fully normalize, and we expect a high number of productions to be completed in Q4 2024, lifting up full-year performance metrics for most studios after the declines in organic revenue growth they reported in the first 9 months of 2024.

We expect positive organic revenue growth for content producers in 2025, bolstered mainly by demand for high-quality content from global streaming platforms and, to a lesser extent, from broadcast networks. EMEA-based studios benefit from demand for local content and supportive regulation that incentivizes investment into local productions. However, medium-term growth prospects are uncertain and we note risks that streamers will maintain discipline in their content spending, suppressing demand for and pricing of new commissions. If M&A activity picks up among the larger, diversified media companies and broadcast networks, this could also disrupt and delay demand for commissions while these companies integrate operations and rationalize their combined content budgets. We expect demand from linear TV broadcasters will remain constrained by the structural declines in viewing and need to protect profitability. At the same time, we expect independent studios will continue to see robust growth in less cyclical and highly cash-generative content distribution and licensing.

There is appetite to consolidate film and TV studios to gain scale and increase efficiency, especially outside the U.S., and the EMEA-centered M&A deals that closed in 2024 illustrate this point: RedBird IMI acquired All3Media (which remains an independent producer), Mediawan merged with Germany-based Leonine, and Fremantle acquired Asacha Media Group. Bertelsmann, owner of Fremantle, recently announced they could consider selling a minority stake to another production company. We also believe independent producers will continue to diversify into adjacent media business—for example, into live events and advertising.

## Main assumptions about 2025 and beyond

**1. Escalating sports rights is pressuring non-sports content budgets.**

Sports is increasingly a key programming component for any media company. However, the rising cost of the rights to broadcast sports is putting pressure on non-sports content budgets. As the streaming services scrutinize their non-sports spending, smaller independent film and TV studios are particularly vulnerable to shifts in spending.

**2. Studios will benefit from more theatrical releases—and more potential blockbusters.**

The expanded productions in the second half of 2024 are set to drive a larger global release slate in 2025, resulting in a stronger box office performance year over year.

**3. Content—mainly supported by strong established IP and franchises—remains king.**

As content budgets have reset lower, streamers are prioritizing quality over quantity. This will particularly benefit those studios with established IP and franchises, as well as supporting industries such as talent agencies that represent a strong A-list client base.

**The escalating costs of sports rights are exerting significant pressure on content spending.** Media companies continue to prioritize live sports to maintain stable viewership and expand their subscriber bases on streaming platforms, while also trying to mitigate the secular decline in linear TV. This financial strain is contributing to a sluggish pace of recovery in content creation post-strike, with studios reassessing their budgets such that growth that has lagged pre-strike levels. Smaller independent content creators, who rely heavily on licensing revenues, along with less-diversified talent agencies and studio lots, are particularly vulnerable to these shifts, facing heightened challenges in an increasingly competitive and resource-constrained environment.

**Film studios will release more films into the theaters and have more potential blockbusters.** After being decimated by the pandemic and the two Hollywood strikes, U.S. box office metrics continue to improve. Thanksgiving week's record-breaking results in 2024, in which three blockbuster films (Walt Disney's "Moana 2," Comcast Corp.'s "Wicked," and Paramount Global's "Gladiator 2") amassed over $400 million in domestic ticket sales, suggests that consumers will still flock to movie theaters if presented with compelling content. Still, the 2024 domestic box office ended 4.1% below its 2023 level and 24.8% below its 2019 level, due in part to holes in the release slate resulting from 2023's strikes. We expect the domestic box office to strengthen in 2025 due to more wide releases (more than 2,000 screens) and, in theory, the potential for more blockbusters. In particular, Disney has three Marvel releases (versus just one in 2024) and an Avatar film, and Warner Bros. Discovery has planned 12 releases (versus 11 in 2024), including a highly anticipated Superman movie in July. In all, we expect box office to improve to about $9.3 billion versus about $8.5 billion last year, though this remains below the $11.4 billion in 2019.

## Key risks or opportunities around the baseline

**1. Consolidation among film and TV studios.**

We anticipate the incoming Trump administration will foster a more favorable environment for M&A, offering smaller studios opportunities to achieve much-needed scale and enhance efficiency.

**2. Measuring the risks and benefits around the use of AI.**

As AI tools grow in sophistication and speed, their use-case will become increasingly compelling for content creators. However, there remain uncertainty around the evolution copyright, film/TV studios might confront labor-related challenges while video gaming publishers could see strong productivity gains and cost savings. For music publishers, balancing potential copyright infringements and lower development costs could be particularly difficult.

**AI's path is far from clear.** In the realm of film and TV, studios such as Lions Gate (through their partnership with Runway Partners) are beginning to leverage AI primarily during the pre-production phase to save development costs and time. AI tools can also streamline tasks such as script analysis, casting, and location scouting, thereby accelerating the development process, as well as translation, subtitling, and producing animation. However, full production usage remains constrained by agreements with the Writers Guild of America (WGA) and the Screen Actors Guild (SAG).

In the video gaming industry, AI holds the potential for significant production efficiency gains, and major game studios are developing custom engines centered around AI to enhance various aspects of game development. This is particularly germane for Triple-A games, which have become increasingly expensive to produce.

Meanwhile, in the music industry, AI presents a double-edged sword. On one hand, it poses a threat of copyright infringement through the use of unlicensed IP to train AI models. On the other hand, it offers opportunities to streamline music development and generate additional revenue. For instance, licensing music catalogues to social media companies can become a lucrative venture, and AI can assist in creating new compositions or enhancing existing ones.

**More M&A under Trump.** M&A could help smaller independent studios in particular to gain scale and increase efficiency, and we expect the Trump administration to be more friendly to it in the U.S. However, constrained balance sheets, weak equity prices, and a wide difference in perceived valuations may pose significant challenges.

# Industry Outlook: Distribution

## Ratings trends and outlook

Our rating outlooks for media companies distributing content through direct-to-consumer video streaming services and movie exhibitors is neutral. However, it remains negatively biased for those media companies with significant exposure to linear TV as digitalization (i.e., the internet) changes the way content is distributed and paid for. Our outlooks for U.S. national TV and local broadcasters, which face the brunt of these changes, is solidly negative while those with streaming services that have turned the corner on becoming sustainably profitable are less pressured. These secular changes are most pronounced in the U.S., but will eventually affect linear TV across the world, and our country-specific views reflect that varied pace.

**European TV secular pressures are less acute for non-English language markets.** TV viewing declines are more gradual for markets such as France and Germany, where there are strong local language programming options. Conversely, many English language markets, including the U.K. and Australia, are not far behind the U.S. in terms of competitive pressures from streaming services. Media companies in Europe are adjusting to this by building out local streaming platforms. This will continue to weigh on their profit margins in the next two to three years, as most such streaming services are still loss-making, although we believe most have already passed the peak of streaming losses. In the near term, we expect local streaming propositions will mainly provide broadcasters with digital advertising revenue from free ad-supported subscription tiers, which will broadly make up for the decline in linear TV advertising. Subscription revenue from premium tiers will likely remain marginal in the context of overall revenue

## Main assumptions about 2025 and beyond

**1. Streaming 2.0 is officially here.**

After five years of experimentation and investments by the legacy global diversified media companies, 2025 could finally be an inflection point in the transition to streaming. Although legacy media companies demonstrated they can get to at least break-even profitability in 2024, they still have work to do to attain double-digit profit margins long-term.

**2. The decline in linear TV continues unabated.**

Pressure on the global linear television ecosystem is intensifying as audiences leave digital platforms and advertising remains weak, but these trends are most pronounced in the U.S. We expect U.S. pay-TV subscriber declines to remain steady at about 6% in 2025. Overall pay-TV penetration in the U.S. has declined to about 50% and we don't expect the declines to moderate over the next two years.

**3. Global box office is on more solid footing.**

The global box office recovered nicely in the second half of 2024 on a stronger slate of films, and we expect the momentum to continue into 2025, which should help improve credit metrics for movie exhibitors that are still reeling from the pandemic and Hollywood strikes.

**Streaming 2.0 has seen media companies prioritize profitability over growth.** Streaming services have shifted their strategies by increasing prices, focusing on growing advertising as a monetization stream, and reduced spending across content, marketing, and international expansion. These efforts have significantly improved profitability and Disney, Paramount, and Warner Bros. Discovery are all expecting to reach some level of it in 2025 and to improve it from there. Netflix remains the gold standard, with margins approaching 30%, but both Disney and WBD expect to reach 10% or better by 2026. We believe it's possible for legacy media companies to achieve double-digit percentage margins over the long term, which will go a long way in replacing the lost earnings at their linear TV businesses.

**Media companies in Europe are not trying to compete with global behemoths.** Local broadcasters are building their strategies primarily around local content and as such don't directly compete with global platforms such as Netflix, Amazon, and Disney, which dominate most subscription video-on-demand markets and a have much higher capacity to invest in content and marketing. Broadcasters in non-English speaking countries particularly benefit from the popularity of local content and are better able to fend off competition from global platforms. In the U.K. competition is more intense, leading to a very fragmented streaming market. Over the medium term, this fragmentation could continue to constrain profitability and cash flow generation.

At the same time, many European broadcasters own integrated production studios that help them produce and acquire original content and build broader libraries that underpin their streaming offerings. Near term, we expect local streaming propositions will mainly provide broadcasters with digital advertising revenue from free ad-supported subscription tiers, which will broadly make up for the decline in linear TV advertising. Subscription revenue from premium tiers will likely remain marginal in the context of overall revenue.

In the U.K., digital advertising now comprises close to 25% of ITV's total advertising revenue and likely increased by double-digit rates in 2024, while subscription revenue remains very low. In the second quarter of 2024, ITVX reached 14.6 million monthly active users and had close to 1 million paying subscribers. Bertelsmann-owed RTL Group in Q3 2024 reached 6.5 million paid subscribers across its RTL+ and M6+ services in Germany, France, and Hungary, an increase of more than 20% year over year, and continues to target reaching profitability in 2026. CME Media Enterprises Ltd.'s streaming service Voyo competes very successfully against global platforms in the Czech Republic because of its focus on local content and is on track to reach about 1.5 million paid subscribers in 2025.

**Linear TV is still hemorrhaging viewers.** We forecast that U.S. pay-TV subscriber declines will remain steady at about 6% in 2025, resulting in a low- to mid-single-digit percentage annual decline in affiliate revenues, and that overall viewership, excluding for sports, will decline at the current teens percentage rate, resulting in a mid- to high-single-digit decline in advertising revenues.

Linear TV has historically been supported by sports programming, but more media companies are also putting it on their streaming platforms, which could exacerbate linear TV's decline. Additionally, sports leagues are getting more comfortable putting more rights exclusively on streaming, with Netflix getting three Christmas day games in 2025 and winning the U.S. rights for the next two FIFA Women's World Cup, and Amazon winning one of the three major packages for the NBA. In the fall of 2025, Disney—owner of ESPN, the leading sports-focused network in the U.S.—plans to launch an ESPN streaming service that would have the same content as its linear TV network, which could further accelerate the decline of linear TV.

**For U.S. local TV, we believe retransmission revenue has peaked,** following low-single-digit retransmission revenue growth in 2024. We believe it will start to modestly decline beyond 2025, and expect cord-cutting to remain elevated over the next few years, such that price increases won't offset subscriber declines. We expect local advertising will continue to be more resilient than national advertising, although local TV is not immune to audience declines and we expect this revenue stream will modestly decline over the next few years. As a result, we believe local TV broadcasters will increasingly rely on political advertising revenue in even years for cash flow. However, it is becoming increasingly difficult to predict the number of competitive political races and those that will fall within a specific company's geographic footprint in any given year, and thus we expect more earnings disparity, especially among smaller broadcasters. Still, the near-term forecast on local TV broadcasters in the U.S. is less negative than nationally focused TV network and cable network companies due to relatively low content spending needs and more moderate near-term pressures on key revenue streams.

**Movie exhibitors see daylight ahead.** The impact from the Hollywood strikes lasted well into 2024 but production is finally back on schedule and the release slate has normalized. A strong second-half slate (Moana 2, Wicked, Gladiator II, and Mufasa) in 2024 resulted in domestic box office only being down 4.1% on the year at $8.5 billion. We forecast an even stronger 2025, driven by a normalized theatrical release slate, resulting in a gross domestic box office of about $9.3 billion, or about 9% growth. We expect cinema operators will continue to increase average ticket prices and concessions per patron by shifting towards more premium experiences and product offerings. This will allow cinema operator revenue and profit growth to outpace industrywide box office growth over the next 12 months.

If the recovery follows our base case in 2025, it could allow cinema operators to reduce leverage even while increasing capital expenditure (capex) investment. Cinemark Holdings Inc., for example, has proactively reduced gross debt and interest expense, while AMC Entertainment Holdings Inc. has completed debt for equity swaps and extended near-term maturities (although we still view its capital structure as unsustainable). New Cineworld Midco recently refinanced its capital structure, achieving lower cash interest payments and a positive rating outlook.

## Key risks or opportunities around the baseline

**1. Streaming 2.0 to offset linear declines.**

Streaming services have largely passed the inflection point for profitability through more rational content and marketing spending, and are in the process of building a business that can generate operating margins to offset the declines at their linear TV businesses.

**2. Legacy media hunt for their share of digital advertising.**

Linear audiences are declining at a double-digit rate and linear advertising is following suit. Legacy media companies are building out their ad-supported streaming platforms to try and capture as much of the shift in advertising spend from linear to digital. However, the market is far more competitive.

**3. Meaningful M&A is still remote.**

M&A remains muted but there are signs that could indicate more opportunities in 2025. We expect the regulatory environment to ease with a change in the U.S. administration, and media companies may be more amenable to deals as investments in streaming taper off.

**For legacy media companies, credit metrics will depend on countering linear declines.** Companies like Disney, WBD, and Paramount have had the double whammy of streaming losses and declining linear TV revenue and earnings for the past several years as they invested heavily in building their streaming services. In 2025 there is an opportunity for these companies to generate positive EBITDA growth such that it offsets linear TV declines. If they can sustain this, credit metrics should improve. This trend has already begun: In 2024, Disney's direct-to-consumer (DTC) segment improved EBITDA by $2.5 billion compared to its linear EBITDA only declining by $725 million for almost a $1.8 billion improvement. Paramount saw a net increase in

EBITDA of about $700 million as losses in its DTC segment were $960 million less than the previous year to date (though still negative). WBD saw a net decrease in EBITDA of about $500 million year to date as modest improvements in DTC EBITDA were not enough to counter the over $600 million decline. We expect that 2025 will see DTC gains offset linear declines for all three companies as they continue to benefit from subscriber and average-revenue-per-user (ARPU) growth while continuing to manage costs tightly. However, if this fails to materialize, especially for WBD and Paramount, it could pressure credit metrics and ratings and be a sign that it will be difficult to consistently grow DTC EBITDA fast enough to offset linear declines.

**Streaming video advertising is growing rapidly but is highly competitive.** Audiences have been migrating to streaming video from linear TV for many years, but advertising dollars did not follow suit at the same pace. That changed in 2024, and linear advertising is increasingly shifting towards streaming as ad-supported subscribers are growing rapidly and each streaming platform is building its ad infrastructure. This is impacting legacy media companies with significant linear advertising exposure as they saw high single- to low-double-digit declines, and we expect that to continue into 2025. Much of this lost advertising is being captured through streaming advertising, but the marketplace is far more competitive as tech-focused streaming services like Amazon Prime, Netflix, YouTube, and others are aggressively building their own ad-supported subscriber base and infrastructure.

This is also playing out with tech companies being more aggressive to secure sports rights, which remains the most prized content for advertisers. Amazon secured one of the three major NBA rights packages and Netflix is entering the space with multiple Christmas day NFL games, a global rights deal with the WWE, and U.S. domestic rights for the 2027 and 2031 FIFA Women's World Cup.

While the streaming video advertising opportunity is significant, legacy media companies face a more competitive landscape as they try to defend their video advertising market share as the ecosystem shifts from linear to streaming.

**Impediments to M&A are easing.** For local TV broadcasters, a Republican administration may be more supportive of in-market consolidation. The FCC can consider this on a case-by-case basis following the Supreme Court's 2021 ruling in favor of the FCC to relax certain media ownership rules, including the ability to own more than one top-four rated TV station in a single market. We believe material M&A would likely require a change to the national ownership cap, which may require Congressional action and is unlikely to be a near-term priority. Given elevated leverage among many local TV broadcasters, we believe there is limited ability to pursue leveraging transactions.

**M&A in EMEA will be more challenging.** We think consolidation between EMEA linear TV broadcasters could allow these companies to gain scale, reach wider and better targeted audiences, and provide significant synergies in developing unified streaming platforms. However, we remain uncertain whether such deals could get approvals from local regulatory and competition authorities, which so far have been challenging mergers. There might be appetite for M&A deals involving the attractive in-house vertically integrated studios owned by broadcasters, including joint ventures, but these in our view would face execution risks of separating the operations from the core business.

# Industry Outlook: Advertising

## Ratings trends and outlook

We believe the advertising sector is poised for continued healthy growth in 2025. While we anticipate a slower growth rate than 2024, we still believe it will outpace GDP growth, based on the following:

- Total ad growth is primarily driven by the expansion of digital advertising, which we expect will grow at a high-single-digit percentage rate, while traditional media formats such as television, radio, and print face continued secular declines.
- For outdoor advertising we expect mid-single-digit growth over the medium term, driven by the rise of digital outdoor formats, which now constitute over 30% of industry revenues. Despite potential challenges from macroeconomic volatility, the sector stands to benefit from the ongoing recovery in global mobility.
- Exposure to advertising spending by vertical, including recovery of the tech industry globally, while the auto industry in Europe is weakening.
- Advertising is sensitive to macroeconomic fluctuations, and we expect risks will be particularly high in countries such as Germany and France, where we expect weaker GDP growth in 2025 compared to 2024.

Advertising in the U.S. continues to be robust, despite macroeconomic issues, in particular the underlying financial health of the U.S. consumer. We attribute this strength to consumers continuing to spend despite their perceived fears about the U.S. economy, the emergence of cross-border advertisers (in particular those based in China who have spent lavishly in the U.S. and Europe), and the entrance of new e-commerce advertisers.

We expect overall advertising in the U.S. to grow 4.3% in 2025, although trends continue to diverge between legacy media and digital. The former (with the exception of outdoor) should continue its mid-single-digit percentage decline as audiences shrink and advertisers find alternative media to reach consumers. In contrast, search, social, retail media (headlined by Amazon), connected TVs, and streaming will grow at double-digit percentage rates and expand share of ad spend while national and local TV and radio will see declines (with local performing better than national). National TV's headline numbers will reflect mid-single-digit organic declines as well as the impact of a non-Olympics year. And local TV will face the loss of what has been record political advertising spending in 2024. We believe risks to our forecast will generally come from macroeconomic issues and geopolitical risks from a trade war between the U.S. and China, including high tariffs, that could adversely affect Chinese-based advertisers. In addition, the incoming Trump administration may seek to ban or limit pharmaceutical advertising on TV. Pharmaceutical advertising skews toward national television and the loss of this key vertical could hurt television, though we expect the overall impact to be neutral as pharmaceutical companies should move those ad dollars to other media.

We expect ratings to remain stable in 2025 for most advertising companies in Europe. This reflects our expectation of their solid growth prospects, diversification that should absorb macro pressures, focus on cost efficiencies, and sound financial positions that provide flexibility. For the ones most exposed to particular industries—for example, S4 Capital, which depends heavily on ad spending by its clients in the tech industry—recovery in credit metrics will be linked to the recovery in the underlying industries.

We expect TV advertising revenue in the U.K., Germany, and France, which expanded by 1%-3% in 2024, will be broadly flat or decline slightly in 2025, and will be subject to risks of slower economic growth and accelerating declines in TV viewing. Germany in particular could be vulnerable to lower real GDP growth and political uncertainty that may weigh on advertising budgets, leading to a more substantial decline in TV ad revenue.

As the advertising industry remains fragmented, we see further consolidation opportunities. The recently announced acquisition of IPG by Omnicom in the U.S. aims to create the largest global ad agency. We view a successful integration as the biggest challenge facing both companies given the size of the transaction, without disrupting the individual agencies. In our view, consolidation of ad agencies benefits the broader sector with a likely positive impact on the pricing in the sector and more efficient media buying. In addition, we believe European ad agencies have solid balance sheets, which could allow for some M&A without impacting our credit ratings.

## Main assumptions about 2025 and beyond

**1. Ad growth will surpass GDP, with digital increasing at the highest pace.**

We anticipate global advertising to grow at mid-single-digit rates and exceed GDP growth rates. Advertising growth reflects a global economic expansion, with signs of recovery in the eurozone and despite the U.S. economy slowing towards 2%, and digital advertising being a growth driver.

**2. Weakness in legacy advertising to persist.**

We expect legacy linear TV and radio advertising to decline, especially in the U.S., and at a slower pace in Europe due to continuing secular trends and advertising dollars shifting to online.

**3. Revenue and margin of ad-driven companies should not decline due to adoption of AI.**

AI will continue transforming the entire media industry, including ad agencies. We expect ad agencies' AI adoption could enhance their operating efficiency and their clients' return on investments (ROI). We expect clients' saved budgets will likely to be redeployed in ad spending, hence not impacting the revenue and profitability margins of ad companies.

**Global ad growth outpaces GDP thanks to surge in digital.** We expect global advertising revenue to expand at a mid-single digit rate and exceed our 3% 2025 forecast for global real GDP growth. Digital advertising will continue to thrive at a high single-digit percentage rate, and legacy advertising (including TV and radio) will remain weak, declining at a low-single-digit percentage rate. We expect digital video and retail media will remain the fastest-growing segments in 2025, benefiting from the ongoing shift towards online shopping, the rising popularity of digital video and connected TV, and enhanced demographic targeting through video on demand.

**Tepid consumer spending and rising trade tensions weigh on China's ad spending.** China's advertising revenues are likely to decelerate in-line with GDP growth in 2025. Online advertising revenue growth is likely to be modestly higher, benefiting from faster e-commerce growth relative to offline retail spending. Though government trade-in and localized stimulus programs have spurred consumer spending recovery in the fourth quarter of 2024, the benefits are likely to diminish in 2025 without broader-based stimulus or an economic recovery.

**Slowing advertising growth is also weighing on short-form video platforms' ad revenues.** The number of monthly active users on short-form video apps is plateauing, and average users are already spending more than two and a half hours a day on them. The platforms therefore will need to increase market share in the highly competitive e-commerce segment to sustain double-digit revenue growth. This is increasingly difficult as merchants push back on the high return rates on these platforms. Smaller ad-driven internet companies face even greater challenges as larger rivals leverage their vast resources to build out AI infrastructure amid U.S. restrictions on advanced chip exports into China. AI is helping these large Chinese internet companies to gain share in advertising revenues by improving the targeting and relevancy of advertisements on their platforms.

**AI could boost efficiency gains of ad agencies and their clients' ROI.** We anticipate that ad agencies will continue expanding the use of AI across the whole value chain, from planning to process to production. This will enable these companies to enhance targeting and personalization while automating some routine tasks and increase cost efficiencies. We expect clients' budgets saved as the result will be redeployed in ad spending, enabling ad agencies to maintain their revenue growth and profitability margins. Furthermore, some ad agencies could create additional revenue streams from AI-driven solutions and content utilizing their extensive consumer data.

**We expect online classified platforms will show resilience in 2025.** The growth pace will depend on the dynamics in their respective industry verticals. As hiring needs will gradually increase and interest rates decline, online job and real estate classifieds will stabilize and benefit from increasing listings activity. Auto classifieds' growth could be impacted by weaker underlying trends of the auto industry, albeit in the longer term.

## Credit metrics and financial policy

We expect credit metrics for ad companies to remain broadly stable in 2025 resulting from a solid advertising environment and disciplined financial policies. We assume most companies will remain focused on cost efficiencies and wage inflation. We expect this will allow them to invest their savings into AI and data and tech innovation, without weighing on profitability.

We see further consolidation opportunities globally. In our view, European ad companies with strong balance sheets and ample ratings headroom such as Publicis or WPP could pursue some M&A without significantly damaging their credit metrics. WPP still owns a sizable stake in Kantar, which it might monetize in the next couple of years if the private equity sponsors that own the majority stake progress towards an exit from their investment.

The recently announced acquisition of IPG by Omnicom does not impact the rating on Omnicom, as it is an all-stock deal. The merger will add significant scale in providing advertising services and media buying to clients given both Omnicom and IPG's strong positions in the advertising services ecosystem. In our view, the biggest challenge will be successfully integrating both companies into a streamlined holding company structure without disrupting the individual agencies.

## Key risks or opportunities around the baseline

**1. Weaker economic growth could hurt advertising growth.**

Although not our base case, weaker global GDP growth and deterioration in particular industries could reduce consumer spending and advertising growth.

**2. AI-driven efficiency gains could reduce ad agencies' revenues and margins.**

If clients don't redirect their savings to other advertising areas, agencies' top lines could come under pressure.

**Weaker economic growth and consumer confidence in the U.S. and Europe**, especially in Germany and France, could hurt consumer spending and advertising budgets. Sticky inflation and slower interest rate cuts could add to these pressures. Lastly, weaker growth in particular industries, for example advertising spending by the tech sector, autos in Europe, or a ban or limit on pharmaceutical advertising on TV in the U.S., could constrain ad revenue growth.

**AI-driven savings not redeployed with ad companies could squeeze agencies' margins.** With further adoption of AI across the whole value chain, ad agencies could achieve efficiencies that translate into higher ROI for their clients. If those clients don't redeploy the savings with the agencies it might translate into lower revenues of ad agencies and declining profitability, weakening their margins and cash flows.

## Related Research


- U.S. Media And Entertainment: Looking For The Winds Of Change In 2025, Dec. 12, 2024
- Assessing The Credit Quality Of Large U.S. Media Companies (2024 Update), Oct. 14, 2024
- Secular Pressures Reduce Recovery Prospects For U.S. Local TV Broadcasters, Oct. 9, 2024
- Credit FAQ: Can Warner Bros. Discovery Inc. Bounce Back After Being Blocked By The NBA?, July 30, 2024
- Sports Rights: The Jump Ball In The Streaming Ecosystem, June 18, 2024
- Credit FAQ: U.S. Digital Publishers Have Cause For Concern Over Google's AI Overviews, May 23, 2024
- Credit FAQ: Outlooks Diverge For U.S. Local TV Broadcasters As Industry Faces Secular Challenges, April 15, 2024
- Credit FAQ: Proposed Sports Pay-TV Bundle Is Not The Heavyweight Investors Fear, Feb. 21, 2024
- U.S. Speculative-Grade Media Outlook 2024: A Mixed Story, Feb. 2, 2024
- U.S. Advertising Forecast Powered By Digital, Jan. 2, 2024

# Industry Forecasts: Media and Entertainment

Chart 9
### Revenue growth (local currency)

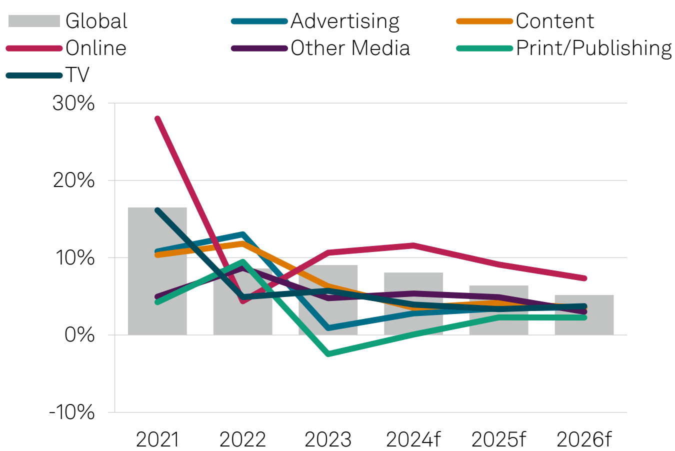



Chart 10
### EBITDA margin (adjusted)

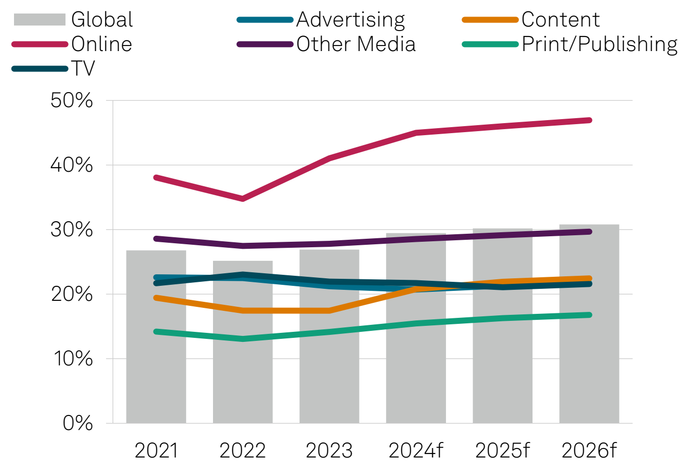



Chart 11
### Debt / EBITDA (median, adjusted)

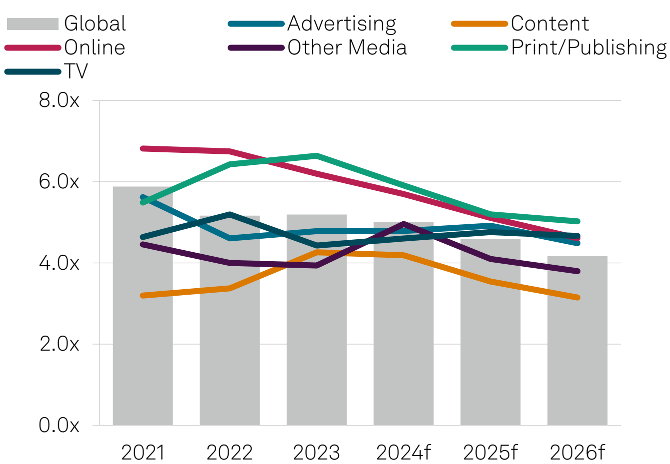
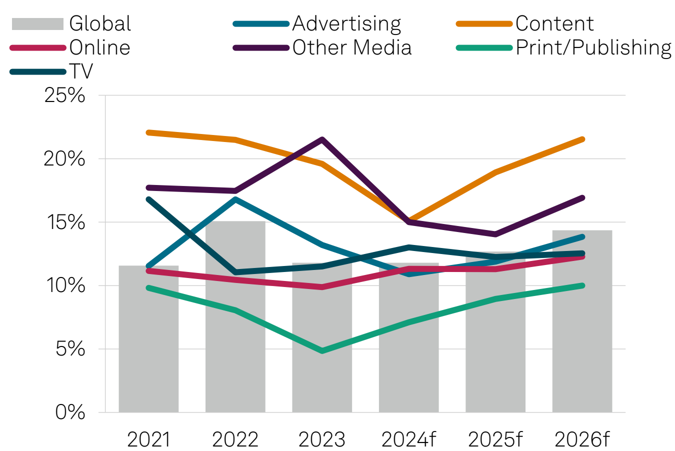



Chart 12
### FFO / Debt (median, adjusted)




Source: S&P Global Ratings. f = Forecast.
Revenue growth shows local currency growth weighted by prior-year common-currency revenue share. All other figures are converted into U.S. dollars using historic exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO—Funds from operations.

# Cash, Debt, And Returns: Media and Entertainment

Chart 13

Cash flow and primary uses

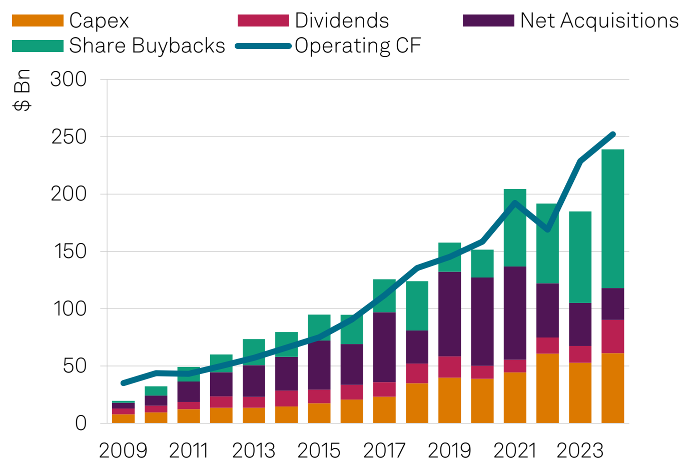



Chart 14

Return on capital employed

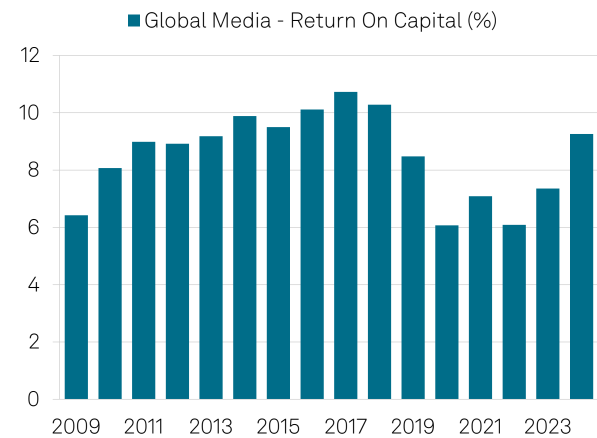



Chart 15

Fixed- versus variable-rate exposure

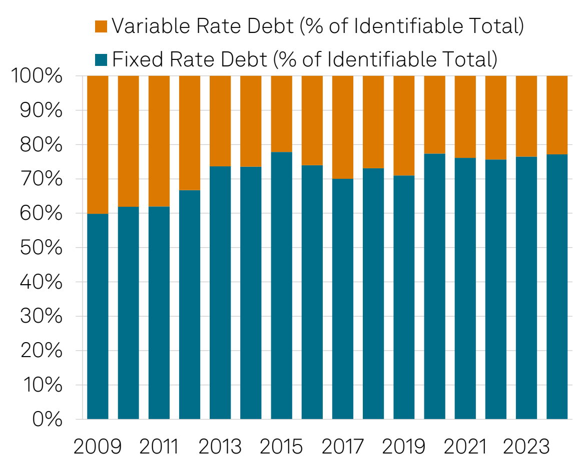



Chart 16

Long-term debt term structure

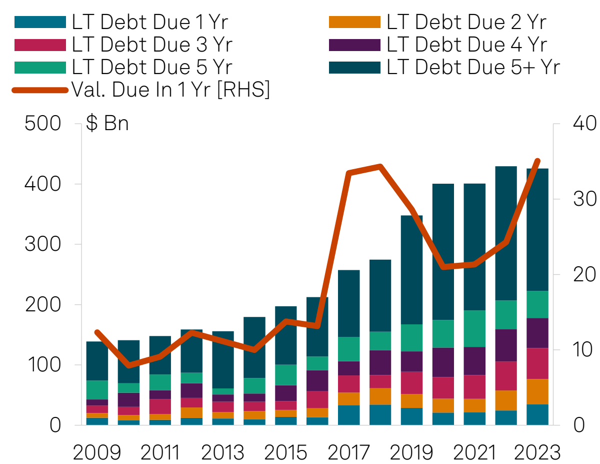



Chart 17

Cash and equivalents / Total assets

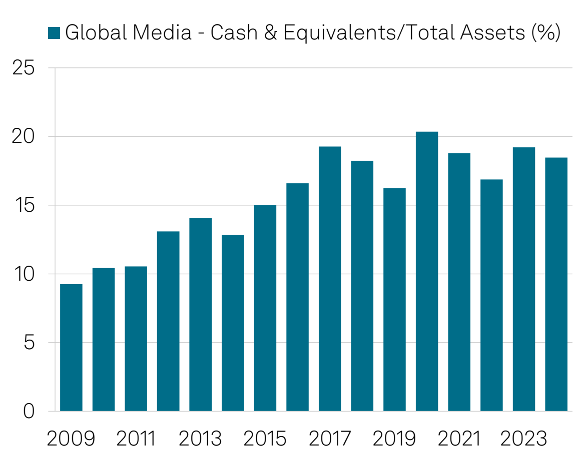
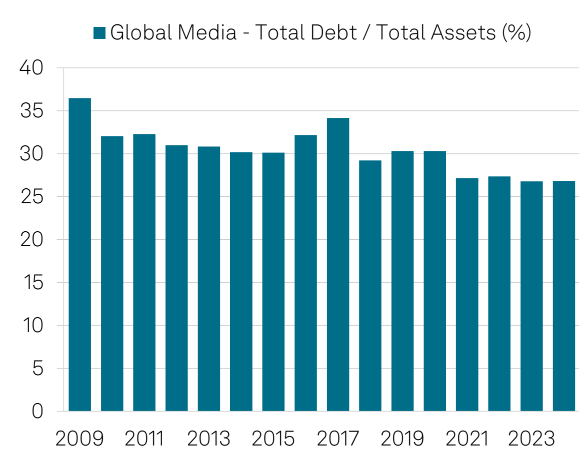



Chart 18

Total debt / Total assets




Source: S&P Capital IQ, S&P Global Ratings calculations. Most recent (2024) figures use the last 12 months' data.